China Flavors and Fragrances Company Limited

中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

SCENT TASTE

And BEAUTIFUL LIFE

2014

INTERIM REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Ming Fan
(Chairman & Chief Executive Officer)
Mr. Li Qing Long
Mr. Qian Wu

Independent non-executive Directors
Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

COMMITTEES OF THE BOARD

Audit Committee
Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

Remuneration Committee
Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan

Nomination Committee
Mr. Leung Wai Man, Roger *(Chairman)*
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
Bank of China-Shenzhen Branch
Shenzhen Ping An Bank

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2101-2, 21st Floor
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY-1108
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock Code: 3318)

COMPANY WEBSITE

www.chinaffl.com

Interim Consolidated Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2014 (Unaudited)	31 December 2013 (Audited)
ASSETS			
Non-current assets			
Land use rights	7	53,283	54,004
Property, plant and equipment	7	607,652	501,010
Available-for-sale financial assets		25,460	19,381
Deferred income tax assets		12,267	11,558
Total non-current assets		698,662	585,953
Current assets			
Inventories		92,833	98,409
Trade and other receivables	8	313,152	249,518
Cash		149,099	179,694
		555,084	527,621
Assets of disposal group classified as held for sale	9	–	255,338
Total current assets		555,084	782,959
Total assets		1,253,746	1,368,912
EQUITY			
Attributable to owners of the Company			
Share capital	10	61,878	61,878
Share premium		433,779	433,779
Other reserves		114,643	114,773
Retained earnings		511,958	460,911
		1,122,258	1,071,341
Non-controlling interests		–	75,184
Total equity		1,122,258	1,146,525
LIABILITIES			
Non-current liabilities			
Deferred government grants		14,900	7,400
Total non-current liabilities		14,900	7,400
Current liabilities			
Trade and other payables	11	90,993	121,757
Current income tax liabilities		25,595	23,149
		116,588	144,906
Liabilities of disposal group classified as held for sale	9	–	70,081
Total current liabilities		116,588	214,987
Total liabilities		131,488	222,387
Total equity and liabilities		1,253,746	1,368,912
Net current assets		438,496	567,972
Total assets less current liabilities		1,137,158	1,153,925

The notes on pages 9 to 23 form an integral part of this interim consolidated financial statements.

Interim Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June 2014	2013 (Restated)
Continuing operations			
Revenue	12	**334,642**	319,829
Cost of sales	13	**(170,042)**	(162,255)
Gross profit		**164,600**	157,574
Selling and marketing expenses	13	**(59,621)**	(57,490)
Administrative expenses	13	**(55,976)**	(50,513)
Other gains – net	12	**432**	540
Operating profit		**49,435**	50,111
Finance income – net	14	**1,938**	962
Profit before income tax		**51,373**	51,073
Income tax charge	15	**(9,278)**	(9,713)
Profit for the period from continuing operations		**42,095**	41,360
Discontinued operations			
Profit for the period from discontinued operations		**4,185**	2,126
Profit for the period		**46,280**	43,486
Attributable to:			
Owners of the Company		**44,839**	42,423
Non-controlling interests		**1,441**	1,063
		46,280	43,486

The notes on pages 9 to 23 form an integral part of this interim consolidated financial statements.

Interim Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June 2014	2013 (Restated)
Profit attributable to owners of the Company arises from:			
Continuing operations		**42,095**	41,360
Discontinued operations		**2,744**	1,063
		44,839	42,423
Earnings per share for profit attributable to owners of the Company – basic and diluted (expressed in RMB per share)			
From continuing operations	16	**0.07**	0.07
From discontinued operations		**–**	–
		0.07	0.07

Information of dividends to equity holders of the Company are set out in Note 17.

The notes on pages 9 to 23 form an integral part of this interim consolidated financial statements.

Interim Consolidated Statement of Comprehensive Income

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2014	2013 (Restated)
Profit for the period	**46,280**	43,486
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Fair value gains on available-for-sale financial assets	**6,078**	–
Total comprehensive income for the period	**52,358**	43,486
Attributable to:		
Owners of the Company	**50,917**	42,423
Non-controlling interests	**1,441**	1,063
Total comprehensive income for the period	**52,358**	43,486
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	**48,173**	41,360
Discontinued operations	**2,744**	1,063
	50,917	42,423

The notes on pages 9 to 23 are an integral part of this interim consolidated financial statements.

Interim Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2013	61,878	433,779	117,017	396,114	1,008,788	72,359	1,081,147
Profit and total comprehensive income for the period ended 30 June 2013	–	–	–	42,423	42,423	1,063	43,486
Balance at 30 June 2013	61,878	433,779	117,017	438,537	1,051,211	73,422	1,124,633
Balance at 1 January 2014	**61,878**	**433,779**	**114,773**	**460,911**	**1,071,341**	**75,184**	**1,146,525**
Comprehensive income							
Profit for the period	**–**	**–**	**–**	**44,839**	**44,839**	**1,441**	**46,280**
Other comprehensive income							
Fair value gains on available-for-sale financial assets	**–**	**–**	**6,078**	**–**	**6,078**	**–**	**6,078**
Release of reserves upon disposal of subsidiaries	**–**	**–**	**(6,208)**	**6,208**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**(130)**	**51,047**	**50,917**	**1,441**	**52,358**
Transactions with owners							
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(76,625)**	**(76,625)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(76,625)**	**(76,625)**
Balance at 30 June 2014	**61,878**	**433,779**	**114,643**	**511,958**	**1,122,258**	**–**	**1,122,258**

The notes on pages 9 to 23 form an integral part of this interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2014	2013
Net cash generated from operating activities	**22,269**	31,225
Cash flows from investing activities		
– Purchase of property, plant and equipment and payments for construction-in-progress	**(118,038)**	(58,766)
– Proceeds from disposal of property, plant and equipment	**88**	31
– (Increase)/decrease in pledged bank deposits	**(345)**	1,198
– Interest received	**712**	1,729
– Proceeds from disposal of subsidiaries	**35,216**	–
Net cash used in investing activities	**(82,367)**	(55,808)
Net decrease in cash and cash equivalents	**(60,098)**	(24,583)
Cash and cash equivalents at beginning of the period	**209,197**	243,129
Cash and cash equivalents at end of the period	**149,099**	218,546

The notes on pages 9 to 23 form an integral part of this interim consolidated financial statements.

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell extracts, flavors and fragrances in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

On 9 December 2005, shares of the Company were listed on The Stock Exchange of Hong Kong Limited.

These unaudited interim consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

These unaudited interim consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 15 August 2014.

This interim consolidated financial statements has not been audited.

2. BASIS OF PREPARATION

This unaudited interim consolidated financial statements for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2014 have impact on the Group.

(All amounts in Renminbi thousands unless otherwise stated)

3. ACCOUNTING POLICIES *(continued)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 16 and HKAS 38 (amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 9	Financial instruments	1 January 2015
HKAS 19 (amendments)	Defined benefit plans	1 July 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 11 (amendment)	Accounting for acquisitions of interests in joint operation	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
HKFRS 9	Financial Instruments	Not yet determined
Annual improvements 2012		1 July 2014
Annual improvements 2013		1 July 2014

The Group did not early adopt any of these new or revised HKAS and HKFRS and amendments to existing HKAS and HKFRS. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

(All amounts in Renminbi thousands unless otherwise stated)

6. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. The Group is organised into four segments: flavors enhancers, food flavors, fine fragrances and extracts.

The Group assesses the performance of the segments based on the profit before income tax.

On 29 October 2013, the Group entered into an agreement to dispose of its entire equity interest in Universal Fragrances Company Limited and its subsidiaries ("Disposal Group"), the operating arm of the extracts segment. The disposal has been completed on 28 February 2014. As such, the results of the two months ended 28 February 2014 have been presented as discontinued operations (Note 9). Comparative figures of the Group's sequent information have been restated accordingly.

The segment information for the six months ended 30 June 2014 is presented below.

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total segments	Extracts	Unallocated	Total
Segment revenue	198,070	75,399	61,525	–	334,994	22,919	–	357,913
Inter-segment revenue	–	–	(352)	–	(352)	(144)	–	(496)
Revenue from external customers	198,070	75,399	61,173	–	334,642	22,775	–	357,417
Operating profit/(loss)	43,816	7,804	626	(2,811)	49,435	3,379	11	52,825
Finance income	–	–	–	712	712	–	–	712
Finance costs	–	–	–	1,226	1,226	347	(27)	1,546
Finance income – net	–	–	–	1,938	1,938	347	(27)	2,258
Profit/(loss) before income tax	43,816	7,804	626	(873)	51,373	3,726	(16)	55,083
Gain on disposal of subsidiaries	–	–	–	–	–	–	1,302	1,302
Income tax charge	(7,722)	(1,399)	(157)	–	(9,278)	(827)	–	(10,105)
Profit/(loss) for the period	36,094	6,405	469	(873)	42,095	2,899	1,286	46,280
Depreciation and amortisation	3,630	1,283	723	–	5,636	–	–	5,636
Provision/(reversal of provision) for doubtful trade and other receivables	–	–	25	–	25	(120)	–	(95)
Reversal of provision for write-down of inventories	–	–	–	–	–	(25)	–	(25)

(All amounts in Renminbi thousands unless otherwise stated)

6. REVENUE AND SEGMENT INFORMATION *(continued)*

The segment information for the six months ended 30 June 2013 is presented below.

	Continuing Operations					Discontinued Operations		
	Flavor enhancers (Restated)	Food flavors (Restated)	Fine fragrances (Restated)	Unallocated (Restated)	Total segments (Restated)	Extracts (Restated)	Unallocated (Restated)	Total (Restated)
Segment revenue	182,017	78,123	61,125	–	321,265	69,142	–	390,407
Inter-segment revenue	–	–	(1,436)	–	(1,436)	(327)	–	(1,763)
Revenue from external customers	182,017	78,123	59,689	–	319,829	68,815	–	388,644
Operating profit/(loss)	36,684	11,894	2,865	(1,332)	50,111	3,071	(780)	52,402
Finance income	–	–	–	1,344	1,344	385	–	1,729
Finance costs	–	–	–	(382)	(382)	(48)	46	(384)
Finance income – net	–	–	–	962	962	337	46	1,345
Profit/(loss) before income tax	36,684	11,894	2,865	(370)	51,073	3,408	(734)	53,747
Income tax charge	(6,669)	(2,169)	(534)	(341)	(9,713)	(548)	–	(10,261)
Profit/(loss) for the period	30,015	9,725	2,331	(711)	41,360	2,860	(734)	43,486
Depreciation and amortisation	3,453	1,251	784	–	5,488	8,065	108	13,661
Reversal of provision for doubtful trade and other receivables	–	–	(86)	–	(86)	–	–	(86)

(All amounts in Renminbi thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment	Land use rights	Intangible assets
Six months ended 30 June 2014			
Opening net book amount as at 1 January 2014	**501,010**	**54,004**	**–**
Additions	**111,632**	**–**	**–**
Disposals	**(75)**	**–**	**–**
Depreciation and amortisation	**(4,915)**	**(721)**	**–**
Closing net book amount as at 30 June 2014	**607,652**	**53,283**	**–**
Six months ended 30 June 2013			
Opening net book amount as at 1 January 2013	437,566	77,598	83,629
Additions	60,826	–	–
Disposals	(784)	–	–
Depreciation and amortisation	(7,905)	(1,060)	(4,814)
Closing net book amount as at 30 June 2013	489,703	76,538	78,815

There was no pledge of any of the Group's property, plant and equipment and land use rights as at 30 June 2014.

(All amounts in Renminbi thousands unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2014	As at 31 December 2013
Trade receivables	(b)	175,702	171,430
Less: provision for impairment		(11,388)	(11,373)
Trade receivables – net		164,314	160,057
Bills receivable	(c)	62,736	61,826
Prepayments		16,273	16,386
Advances to staff		2,355	2,528
Staff benefit payments		5,252	8,524
Other receivables	(d)	62,222	197
		313,152	249,518

(a) The carrying amounts of trade and other receivables approximate their fair value.

(b) The credit period granted to customers is generally 90 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	As at 30 June 2014	As at 31 December 2013
Up to 3 months	131,523	113,707
3 to 6 months	18,702	42,014
6 to 12 months	14,040	4,336
Over 12 months	11,437	11,373
	175,702	171,430

(c) Bills receivable are with maturity between 30 and 180 days.

(d) Other receivables mainly include receivables from disposal of Disposal Group, amounting to HKD70,000,000 (Note 9(e)).

(All amounts in Renminbi thousands unless otherwise stated)

9. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS

The assets and liabilities related to Disposal Group, a 50% owned subsidiary of the Company, have been presented as held for sale and the performance of Disposal Group presented as discontinued operations following the entering into an agreement by the Group on 29 October 2013 to sell Disposal Group to an independent investor.

On 28 February 2014, the Group completed the disposal of its entire interest in Disposal Group. Upon completion of the disposal, Disposal Group ceased to be subsidiaries of the Group.

(a) Assets of disposal group classified as held for sale

	As at 30 June 2014	As at 31 December 2013
Land use rights	–	21,712
Property, plant and equipment	–	57,962
Other intangible assets	–	27,699
Goodwill	–	35,515
Deferred income tax assets	–	3,180
Inventories	–	35,162
Trade and other receivables	–	37,081
Pledged bank deposits	–	7,524
Cash	–	29,503
Total	–	255,338

(b) Liabilities of disposal group classified as held for sale

	As at 30 June 2014	As at 31 December 2013
Deferred government grants	–	5,197
Deferred income tax liabilities	–	14,734
Trade and other payables	–	49,957
Current income tax liabilities	–	193
Total	–	70,081

(All amounts in Renminbi thousands unless otherwise stated)

9. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS *(continued)*

(c) Analysis of the result of discontinued operations is as follows:

	Six months ended 30 June	
	2014	2013
Revenue	**22,775**	68,815
Cost of sales	**(15,762)**	(51,019)
Selling and marketing expenses	**(1,033)**	(3,064)
Administrative expenses	**(2,601)**	(12,398)
Other income/(losses)	**11**	(43)
Finance income	**–**	385
Finance costs	**320**	(2)
Profit before income tax from discontinued operations	**3,710**	2,674
Income tax charge	**(827)**	(548)
Profit after tax of discontinued operations	**2,883**	2,126
Gain on disposal of subsidiaries (Note e)	**1,302**	–
Profit for the period from discontinued operations	**4,185**	2,126
Profit for the period from discontinued operations attributable to:		
– Owners of the company	**2,744**	1,063
– Non-controlling interests	**1,441**	1,063
Profit for the period from discontinued operations	**4,185**	2,126

(d) Analysis of cash flows of the discontinued operations is as follows:

	2014	2013
Operating cash flows	**(8,876)**	(7,317)
Investing cash flows	**(280)**	(87)
Financing cash flows	**–**	–
Total cash flows	**(9,156)**	(7,404)

(All amounts in Renminbi thousands unless otherwise stated)

9. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS *(continued)*

(e) Gain on disposal of Disposal Group is as follows:

	2014
Net consideration	
Cash received	55,563
Other receivables (Note 8(d))	54,866
	110,429
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	58,886
Land use rights	21,712
Other intangible assets	27,699
Goodwill	35,515
Deferred income tax assets	3,086
Inventories	40,446
Trade receivables	33,263
Deposits, prepayments and other receivables	9,377
Restricted cash	7,869
Cash and cash equivalents	20,347
Trade payables	(24,719)
Other payables and accruals	(47,729)
Net assets disposed of	185,752
Non-controlling interests	76,625
Gain on disposal of Disposal Group	1,302

	2014
Net consideration	110,429
Less: Cash and cash equivalents	(20,347)
Other receivables (Note 8(d))	(54,866)
Net cash inflow from disposal of Disposal Group	35,216

10. SHARE CAPITAL

Movements of the share capital are as follows:

	Authorised	
	Number of shares ('000) (of HK$0.1 each)	RMB'000
As at 30 June 2014 and 31 December 2013	**800,000**	83,200

	Issued and fully paid	
	Number of shares ('000) (of HK$0.1 each)	RMB'000
As at 30 June 2014 and 31 December 2013	**628,784**	61,878

11. TRADE AND OTHER PAYABLES

		As at	
	Note	**30 June 2014**	31 December 2013
Trade payables	(a)	**47,505**	61,523
Other taxes payable		**8,473**	144
Accrued expenses		**17,500**	6,438
Salaries payable		**12,789**	19,904
Other payables		**4,726**	33,748
		90,993	121,757

(a) The ageing analysis of the trade payables is as follows:

	As at	
	30 June 2014	31 December 2013
Up to 3 months	**41,510**	56,113
3 to 6 months	**2,673**	2,186
6 to 12 months	**115**	54
Over 12 months	**3,207**	3,170
	47,505	61,523

(All amounts in Renminbi thousands unless otherwise stated)

12. REVENUE AND OTHER GAINS – NET

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Turnover consists of sales of extracts, flavors and fragrances. Revenue and other gains recognised for the six months ended 30 June 2014 are as follows:

	Six months ended 30 June	
	2014	2013
		(Restated)
Revenue of Continuing Operations		
Sales of goods	**334,642**	319,829
Other gains – net		
Others	**432**	540

13. EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2014	2013
		(Restated)
Depreciation and amortisation (Note 7)	**5,636**	5,488
Employee benefit expenses, excluding amount included in research and development	**37,159**	40,294
Changes in inventories of finished goods and work in progress	**6,054**	16,853
Raw materials used	**152,981**	134,619
Lease expenses	**2,064**	2,083
Transportation	**9,458**	8,906
Advertising cost	**12,138**	8,647
Research and development		
– Employee benefit expenses	**6,158**	10,751
– Others	**11,264**	439
Sales commission	**15,714**	16,877
Other expenses	**27,013**	25,301
Total	**285,639**	270,258

(All amounts in Renminbi thousands unless otherwise stated)

14. FINANCE INCOME – NET

	Six months ended 30 June	
	2014	2013 (Restated)
Finance income		
– Interest income	**712**	1,344
Finance cost		
– Exchange gains/(losses)	**1,226**	(382)
Finance income – net	**1,938**	962

15. INCOME TAX CHARGE

The amount of taxation charged to the interim consolidated income statement represents:

	Six months ended 30 June	
	2014	2013 (Restated)
Current taxation:		
– PRC income tax	**9,987**	10,343
Deferred Income tax related to the temporary differences	**(709)**	(630)
	9,278	9,713

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the six months ended 30 June 2014 in those jurisdictions.

(b) Pursuant to the CIT Law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Two subsidiaries of the Group, Shenzhen Boton Spice Co., Ltd. and Wutong Aroma Chemicals Co., Ltd. (a subsidiary of Disposal Group up to 28 February 2014), are qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2011 to 2013.

15. INCOME TAX CHARGE *(continued)*

(c) The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of two major subsidiaries of the Group, as below:

	Six months ended 30 June	
	2014	2013 (Restated)
Profit before taxation	**51,373**	51,073
Tax calculated at a tax rate of 15% (2013: 15%)	**7,706**	7,661
Tax losses not recognised	**133**	63
Expenses not deductible for tax purposes	**1,439**	1,989
Taxation charge	**9,278**	9,713

16. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period under review.

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company		
– Continuing operations	**42,095**	41,360
– Discontinued operations	**2,744**	1,063
	44,839	42,423
Weighted average number of ordinary shares in issue (thousand shares)	**628,784**	628,784
Basic earnings per share (RMB per share)		
– Continuing operations	**0.07**	0.07
– Discontinued operations	**–**	–
Diluted earnings per share (RMB per share)		
– Continuing operations	**0.07**	0.07
– Discontinued operations	**–**	–

(All amounts in Renminbi thousands unless otherwise stated)

17. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2014 (2013: nil).

18 CONTINGENT LIABILITIES

The Group has no contingent liabilities in respect of bank and other guarantees and other matters arising from the ordinary course of business. It is not anticipated that there will be any material liabilities to arise from contingent liabilities.

19. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group at the balance sheet date but not yet incurred is as follows:

	As at	
	30 June 2014	31 December 2013
Property, plant and equipment contracted but not provided for	**23,825**	17,839

(b) Operating lease commitments

The Group leases various plant, offices and motor vehicles under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at	
	30 June 2014	31 December 2013
Not later than one year	**528**	528
Later than 1 year and not later than 5 years	**45**	309
	573	837

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2014 (2013: nil).

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the trading, manufacturing and selling of extracts, flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors or fragrances in the customers' manufactured tobacco, food and daily consumer goods. The Group's products add value by enhancing tastes or smells of its customers' products and therefore improve the product quality of the products manufactured by the Group's customers. The Group's flavors are sold principally to manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products.

Group overview

The PRC economy has had a slow start in the 1st quarter of 2014 which grew 7.4% from a year earlier, the lowest economic expansion since the 3rd quarter of 2012. The 2nd quarter GDP growth of 2014 managed to edge higher at 7.5% year on year after the PRC central government has carried out some targeted measures to bolster economic growth.

During the first half of 2014, the new production plant in the Group's new production base in Nanshan Shuguang Cang Chu Qu Zong Di, Shenzhen, known as Boton Science and Technology Park (the "Park"), has become fully operational. The Group's R&D centres are also in full stream for their research work on natural and biological spices. The R&D team of Shenzhen Boton has established a comprehensive flavours database and a rating system to support its advanced research work and development of new products and application solutions to the Group's customers. Looking back, the Group's research centre (Boton research centre) in Shenzhen has been established since 2004 and is renowned for its research strength and technological achievements. Shenzhen Boton has earned market recognition of its technical accomplishments and has been approved by the Shenzhen municipal government for the establishment of the "Research and Development Centre of Natural Spices Engineering and Technology of Shenzhen City" to carry out advanced research and innovate flavours and fragrances products of proprietary intellectual property rights. The centre also serves as a comprehensive platform for training of perfumers and engineers in natural spices and exchange of information and knowledge with the Group's research partners, customers, local and international industry players.

During the period, the Group has completed the disposal of its extracts segment on 28 February 2014 following the entering into an agreement with an independent third party on 29 October 2013 for disposal of the Group's 50% interest in the issued share capital of Universal Fragrances Company Limited which in turn holds the entire share capital of Wutong Aroma ("Disposal Group"), the operating arm of the Group's extracts segment. The Group made use of the opportunity to realize its investment in its upstream extracts segment. Upon completion of the disposal, the Disposal Group is no longer subsidiary of the Company. As such, the financial results of the two months ended 28 February 2014 of the Disposal Group were accounted for as discontinued operations in the unaudited interim consolidated income statement and unaudited interim consolidated statement of comprehensive income of the Group for the six months ended 30 June 2014 but no more consolidation of the Disposal Group's assets and liabilities into the Group's unaudited interim consolidated balance sheet as at 30 June 2014. An actual gain on the disposal of approximately RMB1.3 million was recognized in the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2014. The actual gain amount was assessed by the management, subject to audit. The Group shall apply the proceeds of the Disposal Group to the Group's general working capital.

The Group recorded turnover of approximately RMB357.4 million (2013: RMB388.6 million) for the six months ended 30 June 2014, down 8.0% from the corresponding period last year. The Group's net profit amounted to approximately RMB46.3 million (2013: RMB43.5 million) for the six months ended 30 June 2014, up 6.4% from the corresponding period last year. The Group's profit attributable to owners of the Company for the period amounted to approximately RMB44.8 million (2013: RMB42.4 million), up 5.7% from the corresponding period last year.

Continuing operations

The Group's continuing operations comprising flavor enhancers, food flavours and fine fragrances continued to grow in the six months ended 30 June 2014. The continuing operations recorded a turnover of approximately RMB334.6 million in the period under review, up 4.6% from RMB319.8 million for the corresponding period last year. Increase of turnover was seen in the two segments of flavour enhancers and fine fragrances. Flavors enhancers recorded a turnover of approximately 198.1 million in the period, up 8.8% from approximately RMB182.0 million for the corresponding period last year. Competition in the flavour enhancers market has been getting tighter day by day. The Company continues to adopt different pricing strategies on different products, in particular, those elastic ones to grow sales with existing customers. This strategy gave satisfactory results. As regards fine fragrances, the turnover of it increased to approximately RMB61.2 million in the period, up 2.5% from approximately RMB59.7 million for the corresponding period last year. The increase was attributable to higher selling prices of the Group's fine fragrances products based on its excellent quality and market demand. On the other hand, food flavours recorded a turnover of approximately RMB75.4 million in the period, down 3.5% from approximately RMB78.1 million for the corresponding period last year. This segment was affected by the weakness in the food and dining industry which has been under pressure from the practice of frugality promulgated by the PRC central government since last year.

The gross profit of the continuing operations increased to approximately RMB164.6 million for the period under review, up 4.4% from approximately RMB157.6 million for the corresponding period last year. With persistent control of raw materials and production overheads, the gross profit margin remained stable at 49.2% for the period versus 49.3% for the corresponding period last year.

Selling and distribution costs of the continuing operations amounted to approximately RMB59.6 million for the period under review, as compared to approximately RMB57.5 million for the corresponding period last year, representing 17.8% (2013: 18.0%) to turnover. The increase in these costs was mainly attributable to increased sales advertising costs.

Administrative expenses of the continuing operations amounted to approximately RMB56.0 million in the period under review, as compared to approximately RMB50.5 million for the corresponding period last year, representing 16.7% (2013: 15.8%) to turnover. The increase in these expenses was mainly attributable to the increase of resources devoted to product research and development and increase in other expenses consisting of new technical consultancy fees and increased business conference expenses, partly offset by decreases in design fees and staff expenses due to restructure of human resources.

Finance income-net of the continuing operations amounted to approximately RMB1.9 million for the period under review, as compared to approximately RMB1.0 million for the corresponding period last year. The increase in net finance income was mainly attributable to foreign exchange translation gain recorded during the period instead of exchange loss in the corresponding period last year.

Profit for the period under review from the continuing operations rose to approximately RMB42.1 million, up 1.7% from approximately RMB41.4 for the corresponding period last year.

Discontinued operations

The discontinued extracts segment recorded a turnover of approximately RMB22.8 million for the two months ended 28 February 2014. The operating net profit amounted to RMB2.9 million for the same period. The net profit for the period amounted to approximately RMB4.2 million after taking into account of the actual gain realized on the Disposal. The actual disposal gain amount was assessed by the management, subject to audit.

FUTURE PLANS AND PROSPECTS

The Company shall remain cautious of the economic environment in the PRC for the second half of the year. It appears that the central government would have to roll out more easing steps to ensure the annual GDP growth target of around 7.5% for 2014 will be met. The Company is also concerned with the recent food scandal in the market involving the supply of expired meat, its impact on the food and beverage industry. Food safety and health awareness will come into limelight once again. Stricter rules and regulations on food and beverage manufacturers would be expected to regulate market practice and ensure public health. The Company will uphold its production standard and product quality. The Board is confident that the Company will benefit from a more regulated market in the long run. In the meantime, the Group continues to see growing interest and demand for its products following wider market recognition of its brand name and successful pricing strategies. The Group's production capacity has been running high to meet demand. For long term planning of future business expansion, the Group may consider adding or branching out production base for next stage of business development. The Group shall continue to strive for excellence in research and development and innovate to meet market demands and to provide unique business solutions to customers of the Group to add value to their products for mutual benefit. In the meantime, construction of the office building and research building in the Park is expected to be completed on or before the first half of next year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had net current assets of approximately RMB438.5 million (31 December 2013: RMB568.0 million). As at 30 June 2014, the Group's cash position stood around RMB149.1 million (31 December 2013: RMB179.7 million). The decreases in the net current assets and cash position of the Group in the first half of 2014 were mainly attributable to the cessation of the consolidation of the Disposal Group's assets and liabilities into the financial statements of the Group and cash expenditure relating to the construction of and purchases of plant and machinery for the Park. The current ratio of the Group was approximately 4.8 as at 30 June 2014 (31 December 2013: 3.6).

The equity attributable to shareholders of the Company as at 30 June 2014 amounted to approximately RMB1,122.3 million (31 December 2013: RMB1,071.3 million). As at 30 June 2014, the Group had no bank loan (31 December 2013: nil). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2014 (31 December 2013: nil).

The Group adopts a prudent approach in its financial management and has maintained a stable and healthy financial position throughout the period under review as demonstrated by the above figures.

FINANCING

As at 30 June 2014, the Group did not have any banking and loan borrowing facilities (31 December 2013: nil).

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favourable terms.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group had net exchange gain of approximately RMB1.2 million for the six months ended 30 June 2014 (2013: exchange loss RMB0.4 million). The Group mainly operates in the PRC with most of the transactions denominated in RMB, hence, no financial instrument of hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 30 June 2014, the Group did not have any borrowings. Should the Group require borrowing in future, it would most likely be bank borrowings denominated in Renminbi and at variable interest rate with reference to The People's Bank of China Prescribed Interest Rate. The Board is of the opinion that the Group is not subject to any significant foreign exchange risk and interest rate risk.

CHARGE ON GROUP'S ASSETS

As at 30 June 2014, the Group did not have any pledge or charge on assets (31 December 2013: nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2014, the Group invested approximately RMB118.0 million (2013: RMB58.8 million) in fixed assets, of which RMB2.3 million (2013: RMB8.7 million) was used for the purchase of machinery.

At 30 June 2014, the Group had capital commitments of RMB23.8 million (31 December 2013: RMB17.8 million) in respect of fixed assets, which are to be funded by internal resources.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2014 (2013: nil).

STAFF POLICY

The Group had 500 employees in the PRC and 9 employees in Hong Kong as at 30 June 2014. The Group offers a comprehensive and competitive remuneration, retirement scheme, a share option scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff subject to their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

SHARE OPTION SCHEME

The scheme limit of the Company's share option scheme has been refreshed by shareholders' resolution at the annual general meeting held on 9 May 2014. However, no share options were outstanding nor granted during the six months ended 30 June 2014.

MATERIAL INVESTMENT

The Group had no material investment save for the investment in the Park located at Nanshan Shuguang Cang Chu Qu Zong Di No. T505-0059 (南山曙光倉儲區宗地 No. T505-0059) in Shenzhen, the PRC, with investment amount totalling RMB494.5 million up to 30 June 2014, increased by RMB107.4 in the first half of the year.

CONTINGENT LIABILITIES

At 30 June 2014, the Group had no contingent liabilities.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

At 30 June 2014, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions

(i) Interest in the Shares and underlying shares of the Company

Name of Director	Personal Interests (held as beneficial owner)	Corporate Interests (interest of controlled corporation)	Total Interests	Approximate Percentage of the Issued Share Capital of the Company
Mr. Wang Ming Fan	49,431,540	324,551,838 (Note)	373,983,378	59.48%

Note:

By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in all the 324,551,838 Shares held by Creative China Limited ("Creative China"), being 51.62% of the issued share capital of the Company, in which 41.19% of the issued share capital of Creative China is owned by Mr. Wang Ming Fan.

(ii) Interests in the shares of Creative China, an associated corporation (defined in the SFO) of the Company

Name of Director	Class and number of shares held in associated corporation	Percentage of issued shares
Mr. Wang Ming Fan	4,559 ordinary shares	41.19%
Mr. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

Save as disclosed above, none of the directors or chief executive of the Company is aware of any other director or chief executive of the Company who has any interest or short position in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the period under review was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and chief executives' interest in securities" above, the following shareholder had notified the Company of its relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Percentage of issued Shares
Creative China (Note)	Beneficial owner (Note)	324,551,838	51.62%

Note:

Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 19.87% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long.

Save as disclosed above, the Company has not been notified of any other relevant interest or short position in the issued share capital of the Company as at 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

AUDIT COMMITTEE

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee (the "Committee") comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Group's unaudited interim consolidated financial statements for the six months ended 30 June 2014 has been reviewed by the Committee.

REMUNERATION COMMITTEE

The committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The committee comprises three independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

NOMINATION COMMITTEE

The committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee comprises three independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

CORPORATE GOVERNANCE

The Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2014, except code provision A.2.1.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing, to ensure a balance of power and authority. Mr. Wang Ming Fan, who is an executive director and chief executive of the Company, is also the Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the model code throughout the six months ended 30 June 2014.

By order of the Board
Wang Ming Fan
Chairman

Hong Kong
15 August 2014